

Key Person Protection

“We’d be lost without you”

How often has your life partner or a close friend chided you for the long hours you work or for your reluctance to take time out for a decent holiday? Most hard-working business owners have heard that old nugget: “No one’s indispensable.”

The reality is, many hard-working, knowledgeable people are indeed the life-blood of hundreds of businesses all over the country. Absolutely, they are indispensable!

We call these business people the Key Person.

They’re the person who has a direct influence on the generation of income to the business. They may be the owner of the business, they may hold key intellectual property, or they may hold key relationships with bankers, customers and suppliers.

A question I often ask business owners is: “If you think the business can operate without you, why do you turn up for work six or seven days-a-week?”

Losing a Key Person is often catastrophic to a small business. The majority of small businesses in New Zealand are owned by a small number of people – often family members. If their Key Person dies or suffers a serious illness or becomes totally or permanently disabled, the business is often wound up; its assets sold under ‘fire sale’ conditions.

Key Person Protection is insurance cover designed to protect the financial stability of a business. It protects the viability of the business.

I have learned, over many years of working with small businesses, the majority of business owners under-value their own worth. They also under-value the worth of their key employees and overstate the ability of those left to run the business in their absence.

A great example of how Key Person cover worked effectively is when one of my clients, who is a sole-practitioner lawyer who works long and stressful hours, accepted he needed to protect his business should he become seriously ill. We put Key Person Cover in place.

Several months on, he suffered a work-related stress/anxiety issue and could not work for five months. His return to work was gradual, as he could only cope with part-time work over another three months as he recovered fully.

The Key Person cover provided for the employment of a locum and covered all business overhead expenses. My client was able to get well more easily, without the added stress of financial pressure on the business.

A not-so happy story is of a husband and wife team who owned a long-established automotive repair business. He operated the workshop and was the Key Person in terms of having the required automotive skills, relationships and knowledge. His wife managed the accounts and workshop bookings. They accepted a Key Person Protection Plan for their business, but later on, when their accountant advised them not to bother with the Key Person Cover, they rejected it.

Then the worst happened. The husband was killed in a boating accident. Not only was his wife left to cope with her grief, but the business was without Key Person protection and she had no automotive skills or knowledge to keep it going.

Three months later the business was wound up and the assets were disposed of in a 'fire sale' for little or no value, because a competitor had moved into a vacant building next door and effectively taken over the customer base.

This was a distressing story and a business-loss scenario which could have been avoided.

Had this business been protected, it might still have closed down eventually, but that could have happened in a more orderly, less-heart-breaking manner and its full value could have been recouped.